

F/L #	DATE	Title of Proposed Change: Penalty and Interest Waiver			
PROGRAM	ELEMENT	COMPONENT			
Tax Programs	Personal Income Tax				
		<u>Personnel Years</u>		<u>Current Year</u>	<u>Budget Year</u>
		<u>CY</u>	<u>BY</u>		
<b>Total Salaries &amp; Wages a/</b>		.0	11.6	\$ 0	\$ 398,000
Salary Savings		.0	-6	\$ 0	-\$ 20,000
<b>Net Total Salaries and Wages</b>		.0	11.0	\$ 0	\$ 378,000
Staff Benefits b/				\$ 0	\$ 115,000
<b>Total Personal Services</b>				\$ 0	\$ 493,000

### Operating Expenses and Equipment

General Expenses /1	\$ 0	\$ 0
Printing /2	0	0
Communications /3	0	0
Postage /4	0	0
Travel-In-State /5	0	0
Travel Out-of-State /6	0	0
Training /7	0	0
Facilities Operations /8	0	0
Utilities	0	0
Cons & Prof Svs - Interdept'l	0	0
Cons & Prof Svs - External	0	0
Consolidated Data Center	0	0
California Health and Human Services Agency Data Center	( )	( )
Stephen P. Teale Data Center	( )	( )
Data Processing /9	0	0
Equipment /10	0	0
Other Items of Exp (Specify Below)	0	0
<b>Total Operating Expense &amp; Equipment</b>	<b>\$ 0</b>	<b>\$ 0</b>

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

	<u>Current Year</u>	<u>Budget Year</u>
<b>TOTAL OPERATING EXPENSES AND EQUIPMENT</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>SPECIAL ITEMS OF EXPENSE d/</b>		
	\$ 0	\$ 0
<b>PROGRAM ADMINISTRATION</b>	\$ 0	\$ 0

<b>Distributed Admin</b>			\$	0	\$	0
<b>TOTAL STATE OPERATIONS EXPENDITURES</b>			\$	0	\$	493,000
<b><u>Source of Funds</u></b>			<b><u>Appropriation No.</u></b>			
	Org	- Ref	- Fund			
General Fund	1730	001	0001	\$	0	\$ 493,000
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
Reimbursements	1730	501	0995		0	0
<b>Totals</b>				\$	0	\$ 493,000
<b>LOCAL ASSISTANCE</b>			\$ (	0)	\$ (	0)
<b><u>Source of Funds</u></b>			<b><u>Appropriation No.</u></b>			
	Org	- Ref	- Fund			
General Fund	1730	001	0001	\$	0	\$ 0
					0	0
					0	0
					0	0
					0	0
					0	0
Reimbursements					0	0
<b>Totals</b>				\$	0	\$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

#### DETAIL OF STAFF BENEFITS AND PERSONAL SERVICES

Positions		CY	Positions		Amount						
			BY	Salary Range	CY	BY					
Compliance - ARM & ASD											
Administrator I	Limited Term **	0.0	1.0	\$	4,517	\$	5,489	\$	0	\$	18,000
Compliance Rep, Ftb - Rg B	Limited Term **	0.0	3.0	\$	2,851	\$	3,300	\$	0	\$	37,000
Tax Technician, Ftb - Rg B	Limited Term **	0.0	31.0	\$	2,507	\$	3,049	\$	0	\$	343,000
Total Compliance - ARM & ASD		.0	35.0					\$	0	\$	398,000
Adjust for Part Year Positions		.0	23.4								
Net Positions/ PYs before salary savings		.0	11.6								

#### ***Part Year Positions***

\* Limited Term Positions - funding for the period September 1, 2003 through December 31, 2003.

<b>Total Salaries and Wages</b>		Positions	.0	35.0	\$	0	\$	398,000
		Part Yr Adj	.0	23.4				
		P.Y.s	.0	11.6				

**FOR FISCAL YEAR 2003/04**

**Staff Benefits**

	2002/03	2003/04
OASDI /1	\$ 0	\$ 23,000
Dental /2	0	6,000
Health /3	0	48,000
Retirement /4	0	28,000
Vision /5	0	1,000
Medicare /6	0	5,000
Worker's Comp /7	0	4,000
Industrial Disability /8	0	0
Non Industrial Disability /9	0	0
Unemployment Insurance /10	0	0
Total Staff Benefits	\$ 0	\$ 115,000

1/ For permanent and overtime, 6.2% of net salary.

2/ For permanent, \$500 per net personnel year.

3/ For permanent, \$4,348 per net personnel year.

4/ For permanent, 7.413% of net salary.

5/ For permanent, \$100 per net personnel year.

6/ 1.45% of net salary for permanent.

7/ 1.01% of net salary for permanent.

8/ 0.0723% of net salary for permanent.

9/ 0.1% of net salary for permanent.

10/ 6.63% of net salary for temporary help.

**FRANCHISE TAX BOARD  
Fiscal Year 2003/04**

**Finance Letter**

**FL No.: 2**

**Penalty and Interest Waiver Program**

**Date: February 11, 2003**

**A. Nature of Request**

The purpose of this request is to extend the Penalty and Interest Waiver Program (PIWP) for four months. Funding and limited-term positions for the project are scheduled to end on August 31, 2003. We are requesting an extension of the project funding and limited-term positions until December 31, 2003. Due to the late signing of the State Budget, delays in obtaining freeze exemptions, and the underestimating of the actual time spent on an account, we have a need to maintain the current level of direct collection staff for an additional four months. The Franchise Tax Board (FTB) is requesting an augmentation for salaries and benefits (for the direct collection staff only) in the amount of \$493,000.

**B. Background/History**

The PIWP Program was developed as a result of AB 2065 (Oropeza, Chapter 488, Statutes of 2002; Revenue and Taxation Code Section 19444). With the passage of this legislation, eligible taxpayers whose tax liabilities are considered to be high-risk collection accounts may be given the opportunity to have their interest, penalties and fees waived in exchange for payment of their remaining tax due. Taxpayers must receive a notice of eligibility from FTB to participate in this program.

FTB currently uses an automated billing/collection system to collect the majority of its delinquent accounts. Taxpayers with tax delinquencies receive one or more notices that range from notices of tax due, to notices that provide that continued failure to pay will result in additional collection actions, to notices of state tax liens. FTB's notices of state tax liens are routinely issued on PIT delinquencies when the amount is sufficient to warrant such action.

If, after several years, FTB cannot locate assets belonging to the debtor and determines that the chances of collecting a delinquency would be remote, the account may be discharged from collection accountability pursuant to the Government Code. However, in the event that an employer, a bank account, or any other readily accessible asset is identified, FTB uses its automated system to issue levies on those assets. In addition, if an overpayment of tax from another tax year is subject to refund, the overpayment is applied against the discharged delinquency before any remaining overpayment is refunded. The account will remain in a discharged status until payment in full has been collected. It is this type of account that is the initial focus of the Program. As the Program continues, other types of accounts will be included.

The projected revenue for the Program is based on a universe of 500,000 high-risk accounts with an average unpaid tax of \$2,500, at a projected participation rate of 10%, resulting in a revenue gain of up to \$125 million.

AB 2065 gave FTB between October 1, 2002, and June 30, 2003, to notify taxpayers and until June 30, 2004, to collect all monies due. This legislation was written with the intent that the Program would be operative by October 1, 2002. The 12-month limited-term positions approved for the project were to be funded effective September 1, 2002, but due to the late passage of the State Budget and further delays in obtaining hiring freeze exemptions, FTB was not able to start the program until approximately November 2002. This delay has caused a backlog of work because FTB had only eight months to send all the letters instead of the ten months as stated in the R&TC section 19444. FTB is also currently experiencing an increase in workload not previously expected in the collection process, resulting in more collector time required to resolve accounts.

### **C. State Level Considerations**

FTB has a fiscal responsibility to identify any possible revenue sources. Due to the types of accounts targeted in this legislation, any revenue received from the targeted accounts without the Program would be insignificant. Therefore, no revenue offset is projected for subsequent years. Considering the revenue possibilities, it would be in the best interest of the State to pursue a method of encouraging payment from these taxpayers.

### **D. Justification**

This is a legislated program addressing the State's current deficit. We expect the Program will generate up to \$125 million in revenue from accounts where the possibility of collection would be minimal at best without the Program. The program has already paid for itself. As of January 25, 2003, the Program has collected approximately \$3.9 million.

Due to the late passage of the State budget, delays in freeze exemption approvals, and the lack of experience in this new workload; we have discovered that the time remaining for the project is insufficient to complete the projected workload remaining. We expect that the resource extension we are requesting will be sufficient to complete the projected workload and realize the full revenue potential of the program (please refer to Attachment I for Workload Detail).

## **E. Analysis Of All Feasible Alternatives**

### **Alternative 1 – Extend limited-term position authority and augment funding for four months – from September 1, 2003 through December 31, 2003.**

This would allow the Program collectors to continue answering calls and correspondence. If those resources were not extended, the program would redirect the necessary resources from other collection workloads which would have a negative impact on revenues. We are requesting a four-month extension of 35 direct collection positions, at a total cost of \$493,000. This extension should allow the Program to work through its initial workload projections and realize the full revenue potential of the program.

### **Alternative 2 – Do Not Extend Limited Term Positions**

Work generated by the Program will not be completed by August 31, 2003, the expiration of the limited-term positions. Any subsequent calls, correspondence and payment applications would have to be handled by collectors assigned to non-Program collection activities, consequently reducing the amount of existing collection revenue by an estimated \$4.7 million.

## **F. Timetable**

We are requesting an extension of the position authority and funding for 35 limited-term positions performing direct collection activities for the period of September 1, 2003, until December 31, 2003.

## **H. Recommendation**

Alternative 1 is recommended, allowing for continued staffing of limited-term direct collection positions for four additional months. This extension would allow the Program collectors to work through their initial workload projections and realize the full potential of the program revenue.

**Penalty and Interest Waiver Program**  
**Finance Letter (FY 2003/2004)**  
**Workload Indicators**

Original notice projections:

Total notices to be mailed	500,000
Participation rate	10%
Volume recovery	50,000 (projected payments and/or returns filed)

Resource Available

31 collector positions - 2 pos for salary savings = 29 collectors

Hours Available	Hours
Gross Hours Available	51,562 (29 collectors X 1778 hrs per py)
Less: Delay from late budget	(8,584) (29 collectors X 148 hrs p/m X 2 mos)
Less: Collector Training	(1,160) (29 collectors X 40 hrs per collector)
Net Hours Available	<b>41,818</b>

Workload Indicators 1\	Actuals 2\ as of 1/25/03	Total Actions 3\ needed for PIWP	Actions 4\ Per Hour	Total Hrs needed for PIWP
ACD Calls 5\	17,263	160,000	4.0	40,000
Correspondence 6\	1,955	15,000	3.0	5,000
Pymts and/or Returns Filed 7\	3,237	50,000	3.5	14,286
Total actions/need	22,455	225,000		<b>59,286</b>

Total hrs needed for PIWP	59,286
Net hrs available	41,818
Net hrs needed	17,468
Collectors	29 (31 pys - 2 sal sav)
Hrs needed per collector	602 (17,468 hrs needed / 29 coll)
Hrs avail p/m per collector	148 (1778 hrs per yr / 12 mos)
Months to extend	4 (602 hrs needed per collector / 148 hrs p/m)

1\ - Workload indicators: Notices mailed result in taxpayer calls, correspondence, payments and returns filed.

2\ - Actuals as of 1/25/03, are for the initial 3 months of activity and are not representative of the activity projected for the remaining months.

3\ - Workload assumptions: We are currently mailing 5,000 notices per day. We project over the life of the program that we will generate these volumes of activities.

4\ - Based on recent experience

Based on the projected universe of 500,000 notices sent:

5\ - We project to receive calls from 32% of the accts.

6\ - We project to receive correspondence from 3% of the accts.

7\ - We project to experience a participation rate (payment and/or return) of 10% of the accts.